annual report 1975

CONTROLLED FOODS INTERNATIONAL LTD.

Highlights

	(000's eliminated) 1975	1974
Revenues	**$33,135**	$27,085
Net income for year before extraordinary income	**1,022**	733
Net income for year	**1,022**	785
Cash flow	**2,087**	1,732
Total assets	**15,518**	15,475
Shareholders' equity	**5,852**	6,436

	1975	1974
Per common share:		
Net income for year before extraordinary income	**$ .51**	$ .29
Net income for year	**.51**	.31
Cash flow	**1.04**	.69
Shareholders' equity	**3.18**	2.61

	1975	1974
Number of Restaurants at end of year:		
A&W's	**47**	50
Fuller's	**21**	20
Corkscrews	**3**	2
Other	**15**	15
	86	87

A Message to the Shareholders:

Each year, the President of a public corporation must publish the audited performance of the Company for its shareholders. The Annual Report is also an opportunity to report the progress or pitfalls of the past year, and to set objectives for the future.

Your Board is pleased to present the results contained in this 1975 Year End Summary.

It would be fair to say that nearly half of Canada had breakfast, lunch or dinner with us last year. About 10 million customers spent more than 30 million dollars at a Controlled Foods International Ltd. restaurant, drive-in, kiosk or dining room. But, we should add that although there are Fuller's, Corkscrew's, A&W's and Buffalo Bill's from Hull to Vancouver, most of the 10 million customers were repeat business.

And that, perhaps, is our proudest claim. In the Food Service and Hospitality Industry, success is in repeat business. Our reputation is at the whim and palate of the customer who may come back.

1975 Total Sales by all divisions reached $33,054,173. A $6,147,854 increase over 1974. The 23% gain can be attributed to a full 12 month performance by every unit, with the exception of one new Fuller's Restaurant which opened in May in Peterborough Shopping Centre and a Corkscrew Restaurant which opened on April 26, 1975 on 142nd Street in Edmonton.

Unit profits increased substantially, despite the squeeze of continual inflation. This year, your Company can announce a $1,022,095 profit after taxes. Earnings per share have reached $.51, or about 6 times Price/Earnings.

Accordingly, your Board is proud to have been able to declare a dividend of $.07 per common share, for 1975.

Your Company enjoyed a record year through outstanding effort by our operators, staff and management group. The new Corkscrew Restaurants have proved to be a fine, healthy division with exceptional potential for future expansion. Unit contribution from the first 3 units was $715,000. Fuller's Division has improved its unit contribution, from $1,160,000 in 1974, to $1,325,000 in 1975. A&W Division is still a cornerstone of the Company with $13,130,000 gross revenue and $1,500,000 unit contribution.

With a foundation of 86 operating units, and a more consolidated position, your Company has an immediate construction program for 11 new restaurants. By the end of 1976, 7 Corkscrews, 2 Fuller's, 1 A&W and 1 Buffalo Bill's will be open or near completion.

If Government Wage and Price Controls and the economy in general can result in a more stable environment and a better standard of living, we can look forward to an outstanding second half of the 1970's.

Your Company employs over 3,000 people across Canada. With expansion planned for 1976, there will be some 4,000 employees, operators, staff and management. Their talent, effort and that all-important smile are our greatest strength.

On behalf of the Board:
May 10, 1976


EXIT

Corkscrew Division

The brilliant performance of the first three Corkscrew Restaurants, in Mississauga and Edmonton, sets the stage for most of your Company's expansion during 1976.

Seven new Corkscrews will either be open, or in final development stages by the end of this year. Each unit is a tremendous investment of time and money, that is proving well worthwhile.

The steak and lobster feast in a medieval setting finds great response with our patrons. To dress and 'Go Out For Dinner' is still an event worthy of careful choice. Each Corkscrew is capable of seating about 300 guests in four Feudal Halls and the cocktail lounge.

There is a salad bar that ranks with the finest gourmet presentation in Canada. A tempting menu of steak and lobster combinations at moderate prices. A good wine selection. And a relaxing lounge for that before or after dinner drink.

The three Corkscrews contributed $4,400,000 to total revenue, and $715,000 to your Company's earnings for 1975. Since the cost of each new restaurant averages about a million dollars, and is expected to have a short pay-out period, the return on investment is outstanding.

New units will open in Vancouver, Edmonton, Calgary and Hamilton. The concentration on markets where Controlled Foods is already in operation contributed to management and marketing efficiency all round.

CONTROLLED FOODS INTERNATIONAL LTD. *(and subsidiary companies)*

Consolidated Balance Sheet *December 31, 1975*

ASSETS

	1975	1974
CURRENT:		
Cash	**$ 768,989**	$ 1,900,277
Notes and accounts receivable (note 2)	**508,501**	566,185
Inventory (note 1(c))	**910,453**	697,635
Investment in and advances to an unconsolidated subsidiary (note 4)	**177,788**	
Prepaid expenses and deposits	**20,029**	16,907
Total current assets	**2,385,760**	3,181,004
LONG TERM NOTES AND RECEIVABLES (note 2)	**335,886**	314,837
FIXED (notes 1(d) and 3):		
Buildings, equipment and leasehold improvements	**12,539,896**	10,730,521
Less accumulated depreciation and amortization	**3,548,318**	2,810,774
	8,991,578	7,919,747
Land	**3,459,795**	3,491,815
	12,451,373	11,411,562
OTHER:		
Trademarks (note 4)		193,722
Franchises at cost less amortization (note 1(e))	**279,979**	300,360
Deferred charges	**26,621**	40,670
Deposits	**38,394**	32,797
	344,994	567,549
	$15,518,013	$15,474,952

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
CURRENT:		
Accounts payable and accrued charges	$ 2,201,119	$ 1,944,770
Income and other taxes payable	430,551	234,851
Current portion of long term debt (note 5)	988,983	858,963
Total current liabilities	3,620,653	3,038,584
LONG TERM DEBT (note 5)	5,456,965	5,477,624
DEFERRED INCOME TAXES (note 1(f))	588,598	522,938
SHAREHOLDERS' EQUITY:		
Capital stock (note 6) —		
Authorized:		
4,000,000 shares without par value		
Issued: 1975 — 2,677,500 shares; (1974 — 2,660,000 shares)	3,420,884	3,381,509
Retained earnings (statement 2)	4,357,987	3,463,600
	7,778,871	6,845,109
Less shares acquired and held by the company at cost: 1975 — 835,600 shares; (1974 — 197,214)	1,927,074	409,303
	5,851,797	6,435,806
	$15,518,013	$15,474,952

On behalf of the Board:

Director

Director

(See accompanying notes)

CONTROLLED FOODS INTERNATIONAL LTD.

Consolidated Statement of Income and Retained Earnings *Year ended December 31, 1975*

	1975	1974
REVENUES:		
Sales	**$33,054,173**	$26,906,319
Other income	**80,852**	179,214
	33,135,025	27,085,533
COST AND EXPENSES:		
Cost of sales	**11,497,464**	9,167,985
Depreciation and amortization of fixed assets (note 1(d))	**828,575**	696,369
Selling, operating, general and administrative expenses	**18,246,092**	14,962,694
Interest —		
Long term debt	**691,910**	734,407
Other	**12,963**	28,160
	31,277,004	25,589,615
Income before income taxes	**1,858,021**	1,495,918
Income taxes:		
Current	**770,266**	487,887
Deferred	**65,660**	274,938
	835,926	762,825
Income before extraordinary items	**1,022,095**	733,093
Extraordinary items		51,720
Net income for year	**1,022,095**	784,813
Retained earnings, beginning of year	**3,463,600**	2,678,787
	4,485,695	3,463,600
Dividends paid	**127,708**	
Retained earnings, end of year	**$ 4,357,987**	$ 3,463,600
Basic and fully diluted earnings per share (note 6):		
Income before extraordinary items	**$.51**	$.29
Net income for year	**$.51**	$.31

(See accompanying notes)

CONTROLLED FOODS INTERNATIONAL LTD.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1975

	1975	1974
SOURCE OF FUNDS:		
Operations —		
Income before extraordinary items	**$ 1,022,095**	$ 733,093
Add (deduct):		
Depreciation and amortization of fixed assets	**828,575**	696,369
Amortization of franchises and other assets	**42,374**	67,486
Deferred income taxes	**65,660**	274,938
Loss (gain) on disposal of fixed assets	**127,992**	(40,166)
Total funds from operations	**2,086,696**	1,731,720
Extraordinary items		51,720
Common shares issued	**39,375**	
Decrease in long term receivables	**36,270**	
Proceeds on disposal of fixed assets	**36,755**	212,903
Proceeds on disposal of other assets		26,058
Long term debt financing	**1,026,967**	1,200,000
Investment in and advances to an unconsolidated subsidiary (note 4)	**115,028**	
	3,341,091	3,222,401
APPLICATION OF FUNDS:		
Fixed assets acquired	**2,031,077**	1,758,926
Franchise acquired	**10,000**	
Dividends paid	**127,708**	
Increase in other assets	**5,597**	1,837
Increase in long term receivables	**68,625**	
Trademarks (note 4)		42,235
Retirement of long term debt	**957,626**	960,015
Capital stock reacquired (note 6)	**1,517,771**	409,303
	4,718,404	3,172,316
Increase (decrease) in working capital	**(1,377,313)**	50,085
Working capital, beginning of year	**142,420**	92,335
Working capital (deficiency), end of year	**$(1,234,893)**	$ 142,420

(See accompanying notes)

1. Accounting policies —

The following is a summary of significant accounting policies used in the preparation of these financial statements.

(a) Principles of consolidation:

The financial statements consolidate the accounts of Controlled Foods International Ltd. and the following subsidiary companies all of which are wholly-owned:

Controlled Foods Corporation Limited
The Country Fare Restaurant Limited
Buffalo Bill Steak Village Ltd.
Hickory House Ltd.
Kingwall Restaurants Ltd.
The Corkscrew Restaurant Ltd.
Courtenay A&W Drive-In Ltd.
Burnaby Foods, Inc.
Burger Family Inn of Billings, Inc.
A&W Soda Shops, Inc.
South Carolina Drive-Ins, Inc.

The accounts of Restaurantera Cosmopolita, S.A., all of the shares of which are owned by the Company, are not included in the consolidated statements for reasons set out in Note 4.

All significant inter-company transactions have been eliminated.

Those subsidiary companies acquired by means of issuing shares, have been accounted for on a "pooling of interests" basis. Those subsidiary companies acquired principally for cash have been accounted for as "purchases".

(b) Foreign currencies:

All U.S. balances have been translated into Canadian funds at par.

(c) Inventory:

Inventories of food and packaging are valued at the lower of cost and net realizable value.

(d) Depreciation:

Depreciation on fixed assets is computed on the straight-line basis over the estimated useful life of the assets at rates varying from 5% to 20%. Leasehold improvements are amortized over the life of the applicable lease.

(e) Amortization of other assets:

Franchises are being amortized on a straight-line basis over the terms of the contractual agreements which vary to a maximum of twenty years.

(f) Income taxes:

In accounting for income taxes the companies follow the tax allocation method in which the major timing difference relates to the depreciation of fixed assets.

No recognition has been made in the accounts of possible tax reductions of $160,000 in future years resulting from costs recorded in the accounts in excess of those claimed for tax purposes and from non-capital losses incurred by certain subsidiaries in 1975 and prior years, which are available for deductions from future taxable income in the respective companies within the limitations prescribed by Canadian tax law.

(g) Comparative figures:

Comparative figures are reclassified to conform with the presentation of the current year.

2. Due from shareholders, directors and officers —

Included in current and long term notes and accounts receivable are the following amounts:

	1975	1974
Due from shareholder and officer	$ 7,100	$ 9,395
Due from shareholders, directors and officers	199,375	97,843
	$206,475	$107,238

In 1972, the company advanced $70,000 to two officers, both of whom are directors and shareholders, to enable them to purchase shares of the company under stock option plans as disclosed in note 6. By amendment of the terms of the original agreement, these advances are now repayable without interest in four equal annual instalments commencing January 1, 1977. As at December 31, 1975, $7,000 of the original advance had been repaid.

In addition, $136,375, of which $97,000 is secured by a first mortgage on real property, is due from an officer who is also a director. This advance is without interest and is repayable as follows:

$97,000 in monthly instalments of $1,000 until paid
$39,375 prior to December 31, 1976.

3. Fixed assets —

The major categories of fixed assets are as follows:

	Cost	Accumulated Depreciation and Amortization	1975 Net Value	1974 Net Value
Buildings	$ 4,455,319	$ 921,304	$ 3,534,015	$ 3,072,869
Equipment, signs, fences and paving	5,206,016	2,106,954	3,099,062	2,866,997
Leasehold improvements	2,878,561	520,060	2,358,501	1,979,881
	12,539,896	3,548,318	8,991,578	7,919,747
Land	3,459,795		3,459,795	3,491,815
	$15,999,691	$3,548,318	$12,451,373	$11,411,562

4. Trademarks —

In a prior year the company acquired all the issued shares of Restaurantera Cosmopolita, S.A., a company whose only significant asset was certain trademarks registered in Mexico. The purchase price of the shares and the advances to the subsidiary were allocated as the cost of these trademarks.

In 1976 the trademarks of Restaurantera Cosmopolita, S.A., were sold and the company will recover its investment and advances.

5. Long term debt —

Long term debt consists of:

	1975	1974
Bank loan — with interest at 2% over the bank's prime rate, repayable in monthly instalments of varying amounts with the balance due August 31, 1980.	$3,324,995	$3,705,000
Bank loan — with interest at 2½% over the bank's prime rate, repayable in monthly instalments of varying amounts with the balance due December 1, 1982.	400,000	
Mortgages and agreements — with interest rates from 7% to 13% and maturing at various dates to August 1986, secured by charges against land and buildings of certain subsidiaries	2,325,372	2,056,673
Notes payable — with interest rates from 8% to 8½% and maturing at various dates to April, 1977 and secured by a floating charge debenture on the assets of a subsidiary	18,750	33,750
Land purchase commitment — due March, 1993.	250,000	250,000
Lien notes payable — due at various dates to July, 1978, secured by charges against equipment of certain subsidiaries	126,831	201,164
Payment due for shares of Restaurantera Cosmopolita, S.A.		90,000
	6,445,948	6,336,587
Less amounts due within one year	988,983	858,963
	$5,456,965	$5,477,624

Principal amounts repayable over the next five years are as follows:
1976 — $988,983 1977 — $1,107,208 1978 — $757,948 1979 — $574,369 1980 — $2,081,736

Bank indebtedness is secured by a registered demand debenture in the amount of $7,000,000 providing fixed and floating charges against the assets of the parent company and the principal operating subsidiaries.

6. Capital stock —

(a) At December 31, 1975, the company had acquired an aggregate of 835,600 shares of its own capital stock (638,386 shares in 1975 and 197,214 shares in 1974) through purchases on the open market at an aggregate cost of $1,927,074 ($1,517,771 in 1975 and $409,303 in 1974).

(b) During the year, the company issued 17,500 shares under an employee stock purchase plan at $2.25 per share.

(c) The following options to purchase common shares were outstanding at December 31, 1975:

Number of shares	Price	Exercisable	Expiry date
21,000	$2.50	Currently	June 30, 1977
7,000	$2.50	July 1, 1976	June 30, 1977
7,000	$2.50	July 1, 1977	June 30, 1978
35,000			

Included in the above, are options to senior officers to purchase 10,000 common shares. Subsequent to the year end, a stock option for 5,000 common shares was cancelled pursuant to the terms of the stock option agreement.

(d) There would be no material dilutive effect on earnings per share if the outstanding options referred to in (c) above were exercised.

7. Statutory information —

The remuneration of directors and senior officers amounted to $255,904 (1974 — $217,843).

8. Commitments —

(a) Certain subsidiary companies have entered into leases of equipment and real property for varying terms up to a maximum of twenty years with rentals varying in some instances with gross revenues, taxes, insurance and other occupancy charges. Minimum rentals for the succeeding five years are as follows:

1976 — $1,339,573 1977 — $1,209,716 1978 — $1,198,595 1979 — $1,146,767 1980 — $1,083,621

(b) At December 31, 1975 a subsidiary company had commitments for a construction project and acquisition of fixed assets totalling $260,000.

9. Anti-Inflation legislation —

The companies are subject to mandatory compliance under Anti-Inflation Legislation as it relates to prices, profits, dividends and employee compensation. The company is restricted from paying any further dividends in the year ending October 13, 1976. It has been determined by the companies that they have operated within the Guidlines of the Anti-Inflation Legislation during the first period of compliance which ended December 31, 1975.

AUDITORS' REPORT

To the Shareholders of Controlled Foods International Ltd.:

We have examined the consolidated balance sheet of Controlled Foods International Ltd. and its subsidiaries as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada,
May 12, 1976.

Clarkson Gordon & Co.
Chartered Accountants

Fuller's Division

There's a new design for Fuller's Restaurants of the future which we think you'll find exciting. Interior colour tones are more subtle, subdued. A licensed lounge will be added, in such a way that the family atmosphere is not disturbed. The menu and presentation is being carefully researched for possible modification.

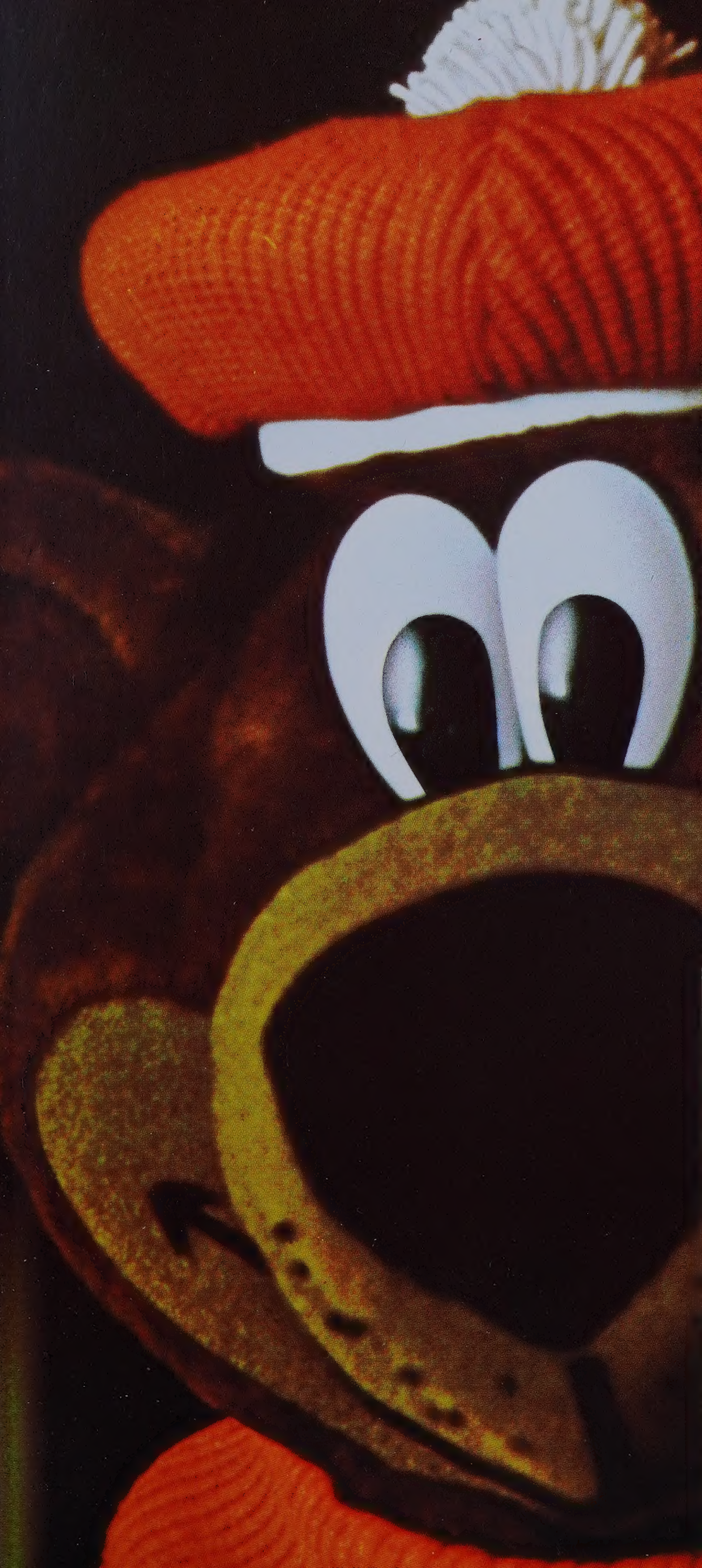
Even though there are 20 very successful Fuller's already in operation, each new restaurant offers a chance to improve or adapt to its unique location.

In 1975, Fuller's Division volume increased substantially to $12,200,000. A $1.7 million jump in sales, with only one new unit added. In other words, the Fuller's menu, quality and friendly service is building business and capacity every day.

It's a credit to the fine staff and management of the division that there is also an improved profit contribution. $1,325,000 for 1975, compared to $1,160,000 in 1974. These 'bottom line' figures are all important in the long-term planning of your Company.

This year, two new Fuller's Restaurants are scheduled for September and October. On May 26, 1975 our first entry into the Peterborough market joined the family. Reluctantly, we did close one unit, in Surrey, this year.

For 1976 we can expect a boom year once again, so long as the Fuller's food, service and hospitality remains the standard in family restaurants.



A&W Division

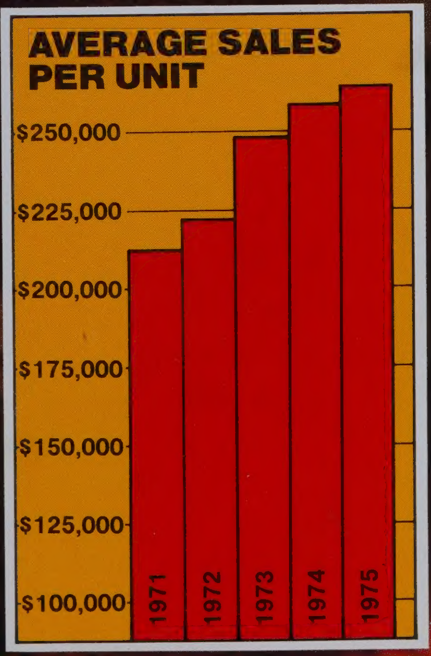
Your Company is the world's largest franchise operator of A&W restaurants. At the close of 1975 we had 47 units from Quebec to British Columbia, contributing $13,130,000 in Gross Revenue. In spite of stiff competition within the market, sales increased by $318,000 over 1974.

Unit sales remained slightly above 1974 at $268,000. Mini-combo performance has lived up to expectations, although conversion costs make it difficult to justify an aggressive program. During the year, three A&W's were sold to consolidate our holdings and streamline management efficiency. One new unit is scheduled to open in June in the Northgate Building, Downtown, Edmonton.

During the year, A&W Food Services of Canada Ltd. launched a campaign designed for high awareness in the youth and teens market. "Follow the Great A&W Root Bear" is funny, imaginative television that has the support of operators coast-to-coast.

The famous combination, a frosty mug of root beer and a perfect hamburger, keeps A&W in first place.

Certainly, it is the cornerstone of Controlled Foods.



Five Year Statistical Review

(000's eliminated)

	1975	1974	1973	1972	1971
Sales	**$33,054**	$26,906	$20,381	$15,398	$12,966
Other Income	**81**	179	101	149	270
	33,135	27,085	20,482	15,547	13,236
Cost of Sales	**11,497**	9,168	7,132	5,402	4,713
Operating Expenses	**18,246**	14,963	11,396	8,483	7,155
	29,743	24,131	18,528	13,885	11,868
Operating Profit	**3,392**	2,954	1,954	1,662	1,368
Depreciation and amortization	**829**	696	488	366	318
Interest	**705**	762	338	235	181
	1,534	1,458	826	601	499
Income before taxes	**1,858**	1,496	1,128	1,061	869
Income taxes	**836**	763	527	517	396
Income before extraordinary items	**1,022**	733	601	544	473
Extraordinary income (expenses)	**—**	52	132	51	848
Net income (loss) for year	**$ 1,022**	$ 785	$ 733	$ 595	$ 1,321
Average number of shares outstanding	**2,004**	2,516	2,660	2,631	2,625
Earnings per share before extraordinary items	**$ .51**	$ .29	$ .23	$ .21	$ .18
Earnings (loss) per share	**$ .51**	$ .31	$ .28	$ .23	$ .50

CONTROLLED FOODS RESTAURANT LOCATIONS

A&W DRIVE-INS

Alberta:
Edmonton—11

British Columbia:
Abbotsford—1
Campbell River—1
Chilliwack—1
Courtenay—1
Duncan—1
Haney—1
Langley—1
Nanaimo—1
Port Coquitlam—1
Victoria—4

Ontario:
Belleville—1
Brockville—1
Cornwall—2
Kingston—1
London—4
Niagara Falls—1
Oakville—1
Port Colborne—1
Port Credit—1
St. Catharines—2
Stratford—1
Trenton—1
Welland—2
Woodstock—1

Quebec:
Granby—1
Sherbrooke—2

LEROY'S

Alberta:
Edmonton—1

Ontario:
Toronto—2

FULLER'S RESTAURANTS

Alberta:
Calgary—2
Edmonton—5

British Columbia:
Vancouver—1

Ontario:
Hamilton—1
Ottawa—2
Toronto—5
Peterborough—1

Quebec:
Hull—1

Saskatchewan:
Regina—1
Saskatoon—1

MISSISSAUGA'S SQUARE ONE SHOPPING CENTRE

(Serviced by 7 fast food bars) in addition to Fuller's, LeRoy's (2) Corkscrew and Jerry's Malt Shop

JERRY'S MALT SHOP

Ontario:
Kitchener—1
Mississauga—1

CORKSCREW RESTAURANT

Alberta:
Edmonton—2

Ontario:
Toronto—1
London—1

BUFFALO BILL'S

Alberta:
Edmonton—1

Ontario:
Toronto—1

HICKORY HOUSE

Manitoba:
Winnipeg—1

CF Food for Thought

Will success spoil us? Is it possible to run a $50 million a year business, where price and palate and presentation are so important? The great challenge facing your Company is a concept of management and operation that never loses its personal touch and responsiveness to satisfy the appetite.

Choosing a restaurant, for a cup of coffee or an evening's entertainment, is a perchance thing. When you enter a new restaurant for the first time, all of your senses either stimulate, or depress your desire.

It's a tremendously competitive business; yet there is no greater satisfaction than the customer who returns, with a friend, or family, for more. We are hosts, chefs, businessmen, businesswomen, all at once.

As business people, we must deal with the climbing food and labour costs that soon reflect in the price of every breakfast, lunch and dinner we serve. It is far harder to please the palate *and* the pocketbook. A good price, for a great meal is the foundation of your Company.

We can expect to top $38 million in 1976, if each of us is sensitive to our customer's needs and desires. We could, in fact, reach $50 million, for the same reason, by the end of 1977!

Too many cooks can spoil the broth in one kitchen. But there's a lot of room for good kitchens in Canada.

Bon Apetit!

CONTROLLED FOODS INTERNATIONAL LTD.

OFFICERS
LeRoy E. Fuller
J. Marcel Prefontaine
D. Glen Neil
Robert R. Roe
Jack Fuller

AUDIT COMMITTEE
Kenneth A. Fowler
Joseph C. Murphy

HEAD OFFICE
Vancouver, Canada

SOLICITORS
Davis & Company

TRANSFER AGENT
Canada Permanent Trust Company

AUDITORS
Clarkson, Gordon & Co.

BANKERS
The Mercantile Bank of Canada
The Toronto-Dominion Bank

STOCK LISTING
The Toronto Stock Exchange
Symbol: CFS

DIRECTORS
Kenneth A. Fowler
LeRoy E. Fuller
Joseph C. Murphy
J. Marcel Prefontaine
Robert R. Roe

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